



LIBERTY

In it with you

Liberty Holdings Limited
Group Equity Value Report
for the year ended
31 December 2020

Independent auditor's report

To the Directors of Liberty Holdings Limited

Our opinion

In our opinion, the group equity value report of Liberty Holdings Limited and its subsidiaries (together the Group) has been prepared, in all material respects in accordance with the basis set out in section 2 of the group equity value report for the year ended 31 December 2020.

What we have audited

Liberty Holdings Limited's Group Equity Value Report set out on pages GE3 to GE8 comprises:

- Section 2 – Component parts of the group equity value and valuation techniques used;
- Section 3.1 – Analysis of normalised group equity value;
- Section 3.2 – Normalised group equity value (loss)/earnings and value per share;
- Section 3.3 – Sources of normalised group equity value earnings; and
- Section 3.4 – Analysis of value of long-term insurance new business and margins

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the group equity value report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards).

Emphasis of Matter – Basis of Accounting and restriction on distribution and use

We draw attention to section 2 of the group equity value report, which describes the basis of accounting. The group equity value report is prepared to reflect the combined equity value of the various components of Liberty Holdings Limited's business. As a result, the group equity value report may not be suitable for another purpose. Our report is intended solely for the directors

of Liberty Holdings Limited and should not be used by any other parties. We agree to the publication of our report provided it is clearly understood by the recipients of the report that they enjoy such receipt for information only and we accept no duty of care to them in respect of our report. Our opinion is not modified in respect of this matter.

This report should be read in conjunction with the audited consolidated financial statements where the policyholder liabilities are determined in terms of International Financial Reporting Standards, which are contained in the Liberty Holdings Limited Annual financial statements for the year ended 31 December 2020.

Other information

The directors are responsible for the other information. The other information comprises Liberty Holdings Limited Annual financial statements for the year ended 31 December 2020, which we obtained prior to the date of this auditor's report, and the Liberty Holdings Limited Integrated report 2020, which is expected to be made available to us after that date. The other information does not include the group equity value report and our auditor's report thereon.

Our opinion on the group equity value report does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the group equity value report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the group equity value report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the group equity value report

The directors are responsible for the preparation and fair presentation of the group equity value report in accordance with the basis set out in Section 2 of the group equity value report and for such internal control as the directors determine is necessary to enable the preparation of the group equity value report that are free from material misstatement, whether due to fraud or error.

In preparing the group equity value report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report (continued)

Auditor's responsibilities for the audit of group equity value report

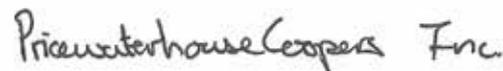
Our objectives are to obtain reasonable assurance about whether group equity value report as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the group equity value report.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of group equity value report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the group equity value report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group equity value report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



PricewaterhouseCoopers Inc.

Director: F.J. Kruger
 Registered Auditor
 4 Lisbon Lane
 Waterfall City
 Jukskei View
 2090
 3 March 2021

Group equity value report

for the year ended 31 December 2020

1. Introduction

Liberty presents a group equity value report to reflect the combined value of the various components of Liberty's businesses.

Section 2 below describes the valuation bases used for each reported component. It should be noted that the group equity value is presented to provide additional information to shareholders to assess performance of the group. The total equity value is not intended to be a fair value calculation of the group but should provide indicative information of the inherent value of the component parts.

2. Component parts of the group equity value and valuation techniques used

Group equity value has been calculated as the sum of the following component parts:

2.1 South African (SA) covered business

The wholly-owned subsidiary, Liberty Group Limited, comprises the South African long-term insurance entities and related asset holding entities. The embedded value methodology in terms of Advisory Practice Note 107 issued by the Actuarial Society of South Africa continues to be used to derive the value of this business cluster described as "South African covered business". The embedded value report of the South African covered business has been reviewed by the group's Head of Actuarial Function. The full embedded value report is included in the supplementary information section.

2.2 Other businesses

STANLIB South Africa	Valued using a 10 times (2019: 10 times) multiple of estimated sustainable earnings.
STANLIB Africa	A 10 times (2019: 10 times) multiple of estimated sustainable earnings, adjusted for country risk.
Liberty Health	In light of the ongoing sub-optimal operations, the IFRS net asset value has been used.
Liberty Africa Insurance	Liberty Africa Insurance is a cluster of both long- and short-term insurance businesses located in various African countries outside of South Africa. A combination of valuation techniques including embedded value, discounted cash flow and earnings multiples have been applied to value these businesses. The combined value of this cluster is not material relative to the other components of group equity value and therefore a detailed analysis of this valuation has not been presented. At 31 December 2020 the combined valuations were approximately equal to the cluster's IFRS net asset value. Therefore the IFRS net asset value was used.
Liberty Holdings	The net market value of assets and liabilities held by the Liberty Holdings Limited company excluding investments in any subsidiaries which are valued separately.

2.3 Liberty Two Degrees (L2D) normalisation adjustment

This represents the difference between Liberty Group Limited's share of the net asset value of L2D as at the reporting date and the listed price of L2D units multiplied by the number of units in issue to Liberty Group Limited at the reporting date. Adjusting the valuation from net asset value to share price is required to ensure consistency between policyholder liabilities and their backing assets, and to provide a market consistent valuation of the L2D shares held within the Shareholder Investment Portfolio.

2.4 Other adjustments

These comprise the fair value of share rights allocated to staff not employed by the South African covered businesses, adjusting certain deferred tax assets to current values and allowance for certain shareholder recurring expenses incurred in Liberty Holdings Limited capitalised at a multiple of 9 times (2019: 9 times).

Group equity value report (continued)

for the year ended 31 December 2020

3. Normalised group equity value

3.1 Analysis of normalised group equity value

2020 Rm (Audited)	SA covered business	Other businesses	Total
Liberty Group Limited consolidated	15 165		15 165
STANLIB South Africa ⁽¹⁾		1 012	1 012
STANLIB Africa ⁽¹⁾		111	111
Liberty Health		433	433
Liberty Africa Insurance		959	959
Liberty Holdings		1 951	1 951
Operations under ownership review ⁽²⁾		69	69
Liberty Two Degrees adjustment to net asset value ⁽³⁾	1 294	19	1 313
Shareholders' equity reported under IFRS	16 459	4 554	21 013
Reverse deferred acquisition cost and deferred revenue liability	(307)		(307)
Frank Financial Services allowance for future expenses	(50)		(50)
BEE preference shares	64		64
Liberty Two Degrees adjustment ⁽³⁾	(1 294)	(19)	(1 313)
Allowance for employee share rights	(139)	(39)	(178)
Normalised net worth	14 733	4 496	19 229
Value of in-force – SA Retail	15 098		15 098
Value of in-force – Liberty Corporate	2 075		2 075
Cost of required capital	(3 242)		(3 242)
Fair value adjustment – STANLIB South Africa ⁽¹⁾		3 288	3 288
Fair value adjustment – STANLIB Africa ⁽¹⁾		159	159
Allowance for future shareholder expenses		(1 397)	(1 397)
Normalised equity value	28 664	6 546	35 210

⁽¹⁾ STANLIB valuation (Rm)	2020	2019	Change
STANLIB South Africa	4 300	4 300	
Net asset value	1 012	913	99
Fair value adjustment	3 288	3 387	(99)
STANLIB Africa	270	300	(30)
Net asset value ⁽¹⁾	111	88	23
Fair value adjustment	159	212	(53)
Total	4 570	4 600	(30)

⁽¹⁾ The STANLIB Africa net asset value reconciles to the positive R111 million (31 December 2019: positive R114 million) in table 3.1 above less Rnil million net asset value (31 December 2019: negative R26 million) included in operations under ownership review.

⁽²⁾ Under IFRS these are disclosed as disposal groups classified as held for sale.

⁽³⁾ This represents the difference between Liberty Group Limited's share of the net asset value of L2D as at the reporting date and the listed price of L2D shares multiplied by the number of shares in issue to Liberty Group Limited at the reporting date. Adjusting the valuation from net asset value to share price is required to ensure consistency between policyholder liabilities and their backing assets, and to provide a market consistent valuation of the L2D shares held within the Shareholder Investment Portfolio.

Group equity value report (continued)

for the year ended 31 December 2020

3. Normalised group equity value (continued)

3.1 Analysis of normalised group equity value (continued)

2019 Rm (Audited)	SA covered business	Other businesses	Total
Liberty Group Limited consolidated	18 690		18 690
STANLIB South Africa		913	913
STANLIB Africa		114	114
Liberty Africa Insurance		920	920
Liberty Holdings		2 103	2 103
Operations under ownership review ⁽¹⁾		265	265
Liberty Two Degrees adjustment to net asset value ⁽²⁾	1046	17	1063
Shareholders' equity reported under IFRS	19 736	4 332	24 068
Reverse deferred acquisition cost and deferred revenue liability	(321)		(321)
Reverse value of in-force acquired	(2)		(2)
Frank Financial Services allowance for future expenses	(50)		(50)
BEE preference shares	78		78
Liberty Two Degrees adjustment ⁽²⁾	(1 046)	(17)	(1063)
Allowance for employee share rights	(35)	(24)	(59)
Normalised net worth	18 360	4 291	22 651
Value of in-force – SA Retail	16 269		16 269
Value of in-force – Liberty Corporate	2 885		2 885
Cost of required capital	(3 155)		(3 155)
Fair value adjustment – STANLIB South Africa		3 387	3 387
Fair value adjustment – STANLIB Africa		212	212
Allowance for future shareholder expenses		(1 342)	(1 342)
Normalised equity value	34 359	6 548	40 907

⁽¹⁾ Under IFRS these are disclosed as disposal groups classified as held for sale.

⁽²⁾ This represents the difference between Liberty Group Limited's share of the net asset value of L2D as at the reporting date and the listed price of L2D shares multiplied by the number of shares in issue to Liberty Group Limited at the reporting date. Adjusting the valuation from net asset value to share price is required to ensure consistency between policyholder liabilities and their backing assets, and to provide a market consistent valuation of the L2D shares held within the Shareholder Investment Portfolio.

Group equity value report (continued)

for the year ended 31 December 2020

3. Normalised group equity value (continued)

3.2 Normalised group equity value (loss)/earnings and value per share

Rm (Audited)	2020			2019		
	SA covered business	Other businesses	Total	SA covered business	Other businesses	Total
Normalised equity value at the end of the year	28 664	6 546	35 210	34 359	6 548	40 907
Equity value at the end of the year	29 894	6 565	36 459	35 327	6 565	41 892
Liberty Two Degrees adjustment ⁽¹⁾	(1 294)	(19)	(1 313)	(1 046)	(17)	(1 063)
BEE preference shares	64		64	78		78
Net share buy-backs		362	362		278	278
Funding of restricted share plan	5	(5)		3	(3)	
Financial guarantee ⁽²⁾	(83)	83				
Intragroup dividends ⁽³⁾	1 431	(1 431)		2 235	(2 235)	
Dividends paid		1 201	1 201		1 917	1 917
Normalised equity value at the beginning of the year	(34 359)	(6 548)	(40 907)	(33 687)	(4 997)	(38 684)
Equity value at the beginning of the year	(35 327)	(6 565)	(41 892)	(34 520)	(5 005)	(39 525)
Liberty Two Degrees adjustment ⁽¹⁾	1 046	17	1 063	932	8	940
BEE preference shares	(78)		(78)	(99)		(99)
Normalised equity value (loss)/earnings	(4 342)	208	(4 134)	2 910	1 508	4 418
Normalised return on group equity value (%)	(12,6)	3,4	(10,2)	8,6	31,9	11,5
Normalised number of shares ('000)			274 389			276 733
Number of shares in issue ('000)			263 211			266 044
Shares held for the employee restricted share scheme ('000)			4 556			4 237
Estimated shares on settlement of performance reward plan			1 463			274
Adjustment for BEE shares ('000)			5 159			6 178
Normalised group equity value per share (R)			128,32			147,82

⁽¹⁾ This represents the difference between Liberty Group Limited's share of the net asset value of L2D as at the reporting date and the listed price of L2D shares multiplied by the number of shares in issue to Liberty Group Limited at the reporting date. Adjusting the valuation from net asset value to share price is required to ensure consistency between policyholder liabilities and their backing assets, and to provide a market consistent valuation of the L2D shares held within the Shareholder Investment Portfolio.

⁽²⁾ The financial guarantee is reflective of the value of Liberty Holdings Limited's support, through a limited guarantee to the holders of certain subordinated notes issued by Liberty Group Limited.

⁽³⁾ Dividends paid by Liberty Group Limited to Liberty Holdings Limited.

Group equity value report (continued)

for the year ended 31 December 2020

3. Normalised group equity value

3.3 Sources of normalised group equity value earnings

Rm (Audited)	2020			2019		
	SA covered business	Other businesses	Total	SA covered business	Other businesses	Total
Value of new business written in the year	24		24	358	49	407
Expected return on value of in-force business	2 356		2 356	2 373		2 373
Variations/changes in operating assumptions	(1 518)		(1 518)	(265)	648	383
Operating experience variances	(861)		(861)	(206)		(206)
Operating assumption changes	(606)		(606)	(101)		(101)
Changes in modelling methodology	(51)		(51)	42		42
New operating model - expense impact ⁽¹⁾					648	648
Development costs	(25)	(9)	(34)	(47)	(16)	(63)
COVID-19 pandemic reserve ⁽²⁾	(3 289)	(15)	(3 304)			
Liberty Holdings shareholder expenses ⁽³⁾		(188)	(188)		(127)	(127)
Headline earnings of other businesses/intragroup transfers		433	433		367	367
Operational equity value (loss)/profits	(2 452)	221	(2 231)	2 419	921	3 340
Economic adjustments	(1 786)	105	(1 681)	480	251	731
Return on net worth	(880)	105	(775)	576	251	827
Investment variances	(1 960)		(1 960)	(653)		(653)
Change in economic assumptions	1 054		1 054	557		557
Change in fair value adjustments on value of other businesses ⁽⁴⁾		(103)	(103)		324	324
Change in allowance for share rights	(104)	(15)	(119)	11	12	23
Group equity value (loss)/earnings	(4 342)	208	(4 134)	2 910	1 508	4 418

⁽¹⁾ This is the impact of reserving for expenses that resided in Liberty Holdings Limited that were transferred to Liberty Group Limited with effect 1 January 2019, in line with the change to the group's operating model which came into effect on the same date.

⁽²⁾ As outlined in the "Key judgements in applying assumptions on application of accounting policies" section.

⁽³⁾ This includes the actual shareholder expenses incurred by Liberty Holdings of R133 million (31 December 2019: R127 million) plus the change in the allowance for future shareholder expenses over the period. In the prior year, the net changes to the allowance for future shareholder expenses were included in 'New operating model - expense impact'.

⁽⁴⁾ The negative R103 million comprises the change in the fair value adjustment in respect of STANLIB asset management operations of negative R152 million, Rnil million for Liberty value of new business offset, remeasurement of disposal groups held for sale of positive R35 million and profit on disposal of subsidiaries of R14 million.

Group equity value report (continued)

for the year ended 31 December 2020

3 Normalised group equity value (continued)

3.4 Analysis of value of long-term insurance new business and margins

Rm (unless otherwise stated) (Audited)	2020	2019
South African covered business		
SA Retail	1 499	1 765
Traditional Life	1 310	1 550
Direct Channel	71	102
Credit Life	118	113
Liberty Corporate	74	158
Gross value of new business	1 573	1 923
Overhead acquisition (including underwriting) costs impact on value of new business	(1 411)	(1 365)
Cost of required capital	(138)	(200)
Net value of South African covered business	24	358
Present value of future expected premiums	33 322	39 712
Margin (%)	0,1	0,9
Liberty Africa Insurance		
Net value of new business	-	49
Present value of future expected premiums	1 068	1 207
Margin (%)	0,0	4,1
Total group net value of new business	24	407
Total group margin (%)	0,1	1,0



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